
AUDIT REPORT



INDIANA STATE DEPARTMENT OF HEALTH HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS PROGRAM

INDIANAPOLIS, INDIANA

2003-CH-1020

JULY 29, 2003

OFFICE OF AUDIT, REGION V
CHICAGO, ILLINOIS



Issue Date	July 29, 2003
Audit Case Number	2003-CH-1020

TO: Robert F. Poffenberger, Director of Community Planning and Development,
Indianapolis Field Office

/Acting for

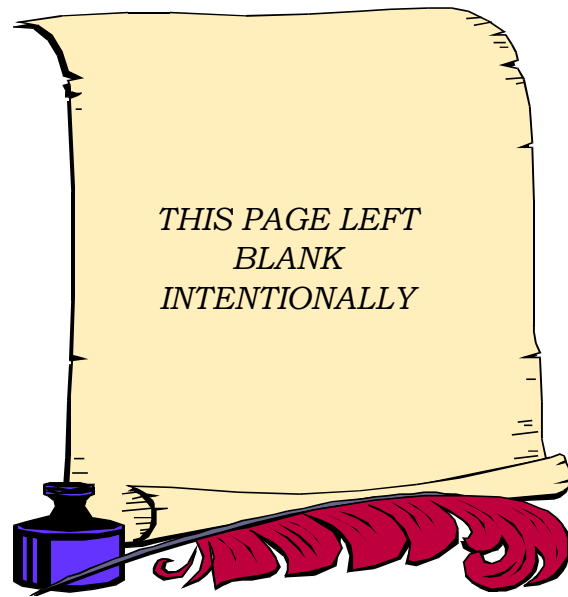
FROM: Heath Wolfe, Regional Inspector General for Audit, Region V

SUBJECT: Indiana State Department of Health
Housing Opportunities for Persons With AIDS Program
Indianapolis, Indiana

We completed an audit of the Indiana State Department of Health's Housing Opportunities for Persons With AIDS Program. The audit was conducted based upon a citizen's complaint to our office. The complainant alleged that program funds were misused and wasted. Our audit objectives were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the program were followed. The audit resulted in one finding.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please provide us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact Ronald Huritz, Assistant Regional Inspector General for Audit, at (312) 353-6236, extension 2675, or me at (312) 353-7832.



Executive Summary

We completed an audit of the Indiana State Department of Health's Housing Opportunities for Persons With AIDS Program. The audit was conducted based upon a citizen's complaint to our office. The complainant alleged that Program funds were misused and wasted. Our audit objectives were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the Program were followed.

We concluded the Indiana State Department of Health's Human Immunodeficiency Virus Sexually Transmitted Disease Division did not maintain adequate oversight of its Program. Specifically, we determined the Department of Health:

- ❖ Inappropriately drew down \$53,695 in HUD funds that did not benefit its Program;
- ❖ Paid AIDServe, the managing entity of its program, \$33,322 in non-HUD funds that did not benefit its program, for which the Department of Health is expecting reimbursement from HUD;
- ❖ Lacked sufficient documentation to support that another \$44,938 in HUD funds benefited its program; and
- ❖ Lacked sufficient documentation to support that another \$39,761 in non-HUD funds paid to AIDServe for which the State is expecting reimbursement from HUD benefited its grant program.

Controls Over HUD Funds Were Not Adequate

The Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division did not maintain sufficient controls over HUD funds for its Housing Opportunities for Persons With AIDS Program. The Department of Health inappropriately drew down \$53,695 in HUD funds and paid AIDServe \$33,322 in non-HUD funds that did not benefit its program, for which the Department of Health is expecting reimbursement from HUD. The Department of Health lacked sufficient documentation to support that another \$44,938 in HUD funds and \$39,761 in non-HUD funds benefited its program.

The problems occurred because the State lacked effective procedures and controls to assure that HUD funds were used appropriately. As a result, HUD funds were not used efficiently and effectively, and available funding for eligible individuals living with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and their families was reduced.

Recommendations

We recommend that the Indianapolis Field Office Director of Community Planning and Development assure that the Indiana State Department of Health reimburses its Program for the inappropriate drawdowns of HUD funds for its Program and implements controls to correct the weaknesses cited in this report.

We presented our draft audit report to the State of Indiana's Health Commissioner and HUD's staff during the audit. We held an exit conference with the Health Commissioner on June 16, 2003. The Indiana State Department of Health and HUD provided written comments to our draft audit report. We included paraphrased excerpts of the auditee and HUD's comments with the finding. The complete text of the auditee comments is included in Appendix B; the complete text of HUD's written comments is included in Appendix C.

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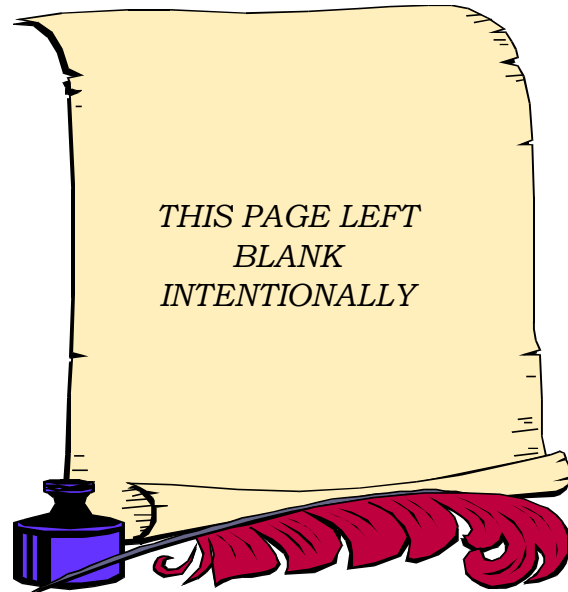
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Introduction

The Housing Opportunities for Persons With AIDS Program was established in 1992 by the AIDS Housing Opportunity Act to address the specific needs of individuals living with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and their families. Program funds are awarded as grants from one of following three Housing Opportunities for Persons with AIDS programs: Formula; Competitive; and National Technical Assistance. The grants are available to local communities, States, and non-profit organizations for projects that benefit low-income persons medically diagnosed with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and their families. Program funds may be used for the acquisition, rehabilitation or new construction of housing units, facility operations, rental assistance, and short-term payments to prevent homelessness. Program funds may also be used for health care and mental health services, chemical dependency treatment, nutritional services, case management, assistance with daily living, and other supportive services.

The State of Indiana was awarded \$2,427,000 in Formula Program funds through its Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division between November 1995 and August 1999. The following table shows the Fiscal Year and the amount of the five grants awarded to its Program for Fiscal Years 1995 through 1999.

<i>Fiscal Year</i>	<i>Program Type</i>	<i>Grant Amount</i>
1995	Formula	947,000
1996	Formula	452,000
1997	Formula	535,000
1998	Formula	577,000
1999	Formula	636,000
Total		<u>\$2,427,000</u>

The Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division administers the State's Program. The Governor of the State of Indiana is Frank O'Bannon. Gregory Wilson is the Health Commissioner of the Indiana State Department of Health and Michael Butler is the Director of the Division.

The Indiana State Department of Health contracted with Indiana Cares, Incorporated to manage the day-to-day operations of the program from 1992 to 1998. Indiana Cares, Incorporated merged with AIDServe, Incorporated on October 6, 1998. The Department then contracted with AIDServe to manage the program. The Department revoked its contract with AIDServe in November 2000 for the improper use of program funds and inappropriate invoicing procedures. AIDServe filed for bankruptcy in May 2001. The Governor of Indiana designated the Indiana Housing Finance Authority as the new manager of the program in January 2001.

The State maintains its program records at the Human Immunodeficiency Virus/Sexually Transmitted Disease Division. The Division is located at 2 North Meridian, Indianapolis, Indiana.

Audit Objectives

Our audit objectives were to determine whether the complainant's allegations were substantiated and whether HUD's rules and regulations for the program were followed.

Audit Scope And Methodology

We conducted the audit at HUD's Indianapolis Field Office and the Indiana State Department of Health. We performed our on-site work between January and November 2002.

To accomplish our audit objectives, we interviewed staff from HUD and the Indiana State Department of Health. We also interviewed 19 of the 36 landlords who received program funding.

To analyze the State's program, we reviewed files and records maintained by HUD and the State's Department of Health. We also reviewed: 24 CFR Parts 91 and 574; Office of Management and Budget Circular A-87 and A-122; HUD's Housing Opportunities for Persons With AIDS 1992 Competitive Grant Agreement with the State of Indiana; HUD's Housing Opportunities for Persons With AIDS 1994 through 2000 Formula Grant Agreements with the State of Indiana; Section 5-11-10-1 of the Indiana Code; the State of Indiana's State Bookkeeping Manual; the State of Indiana's Grant Agreements with Indiana Cares, Incorporated; the State of Indiana's Grant Agreements with AIDServe; AIDServe's bank statements from January 1999 to November 2000, audited financial statements, and all reimbursement claim vouchers submitted between January 1999 and December 2000.

The audit covered the period of January 1, 1999 to December 31, 2000. This period was adjusted as necessary. We conducted our audit in accordance with Generally Accepted Government Auditing Standards.

We provided a copy of this report to the Health Commissioner of the Indiana State Department of Health.

Controls Over HUD Funds Were Not Adequate

The Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division did not maintain sufficient controls over HUD funds for its Housing Opportunities for Persons With AIDS Program. The State inappropriately drew down \$53,695 in HUD funds and paid AIDServe, Incorporated, the managing entity of its Program, \$33,322 in non-HUD funds in which the State is expecting reimbursement from HUD that did not benefit its Program. The State lacked sufficient documentation to support that another \$44,938 in HUD funds and \$39,761 in non-HUD funds paid to AIDServe in which the State is expecting reimbursement from HUD benefited its Program. The problems occurred because the State lacked effective procedures and controls to assure that HUD funds were used appropriately. As a result, HUD funds were not used efficiently and effectively, and available funding for eligible individuals living with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and their families was reduced.

Federal Requirements

The Housing Opportunities for Persons With AIDS Formula Grant Agreements between HUD and the State require the State to comply with 24 CFR Part 574. The Agreements also require the State to ensure the Project Sponsor operates the Program in accordance with applicable HUD requirements.

24 CFR Part 574.500 requires grantees to ensure that their respective project sponsors carry out activities in compliance with all applicable requirements. 24 CFR Part 574.605 requires States to use Program funds in accordance with Office of Management and Budget Circular A-87.

Office of Management and Budget Circular A-87, Attachment A, requires principles to be established to assure that Federal awards bear their fair share of costs. Attachment A, paragraph C(1)(a), requires all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. In addition, paragraph C(1)(j) requires all costs to be adequately documented.

State Grant Agreements

The State's Grant Agreements with AIDServe require AIDServe to comply with all applicable Federal, State, and local laws, rules, regulations, and ordinances.

State's Payment Process

AIDServe submitted claim vouchers with supporting documentation to the State. The State reviewed, approved, and sent the claims back to AIDServe for data entry.

Disbursements/Claims
Reviewed And Schedules
Provided

AIDServe then entered the claims into HUD's Integrated Disbursement and Information System. The State verified the claims entered into HUD's System, drew down the funds from HUD's System, and reimbursed AIDServe for the expenses.

We reviewed 100 percent of the Housing Opportunities for Persons With AIDS claim vouchers, supporting documentation submitted to the State by AIDServe, and draw downs by the State from January 1999 to November 2000 to determine whether the costs were reasonable and necessary expenses of the Program. AIDServe submitted claim vouchers for \$879,122 in expenses associated with the Fiscal Years 1995 through 1999 Housing Opportunities for Persons With AIDS Formula Grants. The State approved the \$879,122 in claims and drew down \$324,959 in HUD funds. However, AIDServe experienced technical problems entering the remaining \$554,163 of the claims into HUD's System. Therefore, the State paid AIDServe with non-HUD funds for the claims expecting to receive payment from HUD when AIDServe was able to correctly enter the claims into HUD's System. AIDServe filed for bankruptcy before it was able to correctly enter the claims into HUD's System. HUD's Indianapolis Field Office Director of Community Planning and Development said HUD is waiting on the results of our audit to determine the amount of the \$554,163 it should provide to the State.

We determined that the State paid for ineligible and unsupported costs from HUD funds for its Program. In addition, we determined that the State paid for ineligible and unsupported costs for its Program in which it is expecting reimbursement from HUD. A schedule was prepared showing the ineligible and unsupported costs. We provided the schedule to HUD's Indiana Field Office Director of Community Planning and Development and to the State's Deputy State Health Commissioner/Special Counsel to the Commissioner.

Oversight Of HUD Funds
Was Not Adequate

The Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division did not maintain adequate oversight and controls over HUD funds for its Program. Specifically, the State drew down \$53,695 in HUD funds and paid AIDServe \$33,322 in non-HUD funds in which the State is expecting

reimbursement from HUD that did not benefit its Program. The State lacked sufficient documentation to support that another \$44,938 in HUD funds and \$39,761 in non-HUD funds in which the State is expecting reimbursement from HUD benefited the State’s Program. The following table shows the amount of ineligible and unsupported expenses for HUD funds and funds in which the State is awaiting HUD’s payment for the State’s Program.

<i>Funding Type</i>	<i>As of December 2000</i>	<i>Ineligible</i>		<i>Unsupported</i>	
		<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>
HUD Draw Downs	\$324,959	\$53,695	16.5%	\$44,938	13.8%
Non-HUD Funds Spent	554,163	33,322	6.0%	39,761	7.2%
Totals	\$879,122	\$87,017	9.9%	\$84,699	9.6%

HUD Funds Were Inappropriately Drawn Down

The State inappropriately drew down \$53,695 of HUD funds for its Program. The drawdowns consisted of \$11,679 for ineligible expenses, \$34,606 in excess claims, and \$7,410 in excess draw downs. The expenses included the following: voided, uncashed, and non-sufficient fund checks for \$9,165; overpayments and inappropriate payments to landlords for rental assistance for \$2,403; and other miscellaneous expenses of \$111.

Furthermore, the State paid AIDServe \$33,322 in non-HUD funds for ineligible expenses in which the State is expecting reimbursement from HUD. The expenses included the following: non-Program expenses of \$12,921; voided, uncashed, and non-sufficient fund checks for \$11,435; previously paid expenses totaling \$4,800; incorrect apartment inspections for \$3,035; inappropriate payments to landlords for rental assistance for \$876; and other miscellaneous expenses of \$255.

The State Lacked Sufficient Documentation To Support Drawdowns Of HUD Funds

The State lacked sufficient documentation for \$44,938 of HUD funds it drew down for its Program. The drawdowns consisted of \$26,631 in unsupported expenses and \$18,307 the State could not match to claim vouchers. The expenses included the following: regional agency site expenses of \$14,518; rental assistance for \$5,408; unknown expenses totaling \$3,276; utility assistance for \$1,114; office lease payments of \$825; and other miscellaneous expenses totaling \$1,490.

Furthermore, the State lacked adequate supporting documentation for \$39,761 in non-HUD funds it paid to AIDServe for expenses in which the State is expecting reimbursement from HUD. The expenses included the following: regional agency site expenses of \$10,558; rental assistance for \$8,328; unknown expenses totaling \$7,994; temporary services totaling \$4,280; office lease payments of \$2,321; administration costs for \$2,270; and other miscellaneous expenses totaling \$4,010.

The State could not provide invoices, receipts, and/or cancelled checks for the expenses.

Procedures And Controls
Were Not Adequate

The State lacked adequate procedures and controls to ensure HUD funds were used appropriately. AIDServe would not allow the State to review the supporting documentation for the expenses due to the confidentiality of the Program's recipients. Therefore, the State did not require AIDServe to provide the supporting documentation for expenses. Furthermore, the Indiana State Department of Health's former Accounting Manager said he knew about the discrepancies between the approved claim vouchers and what AIDServe entered into HUD's System. However, he approved the claims to reimburse the State's non-HUD funds used to pay expenses for its Program. As a result, HUD funds were not used efficiently and effectively, and available funding for eligible individuals living with Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and their families was reduced.

Auditee Comments

[Excerpts paraphrased from the comments provided by the Deputy Health Commissioner of the Indiana State Department of Health and HUD on our draft audit report follow. Appendix B , pages 17 to 20, contains the complete text of the auditee comments for this finding. Appendix C, pages 21 to 22, contains the complete text of HUD's comments.]

The OIG finds that \$53,695 in claims drawn down by AIDServe for program expenses were ineligible under the Housing Opportunities for People With AIDS Program. The OIG recommends that this amount be reimbursed by the State to HUD in non-Federal funds. The Indiana State

Department of Health accepts this finding and agrees that this amount should be deducted by HUD from the \$554,163 currently held by HUD and for which the Indiana State Department of Health is awaiting permission to draw down.

The OIG finds that the Indiana State Department of Health is currently seeking reimbursement for \$33,322 in claims for which the Department of Health used non-HUD funds and which are ineligible under the Housing Opportunities for People With AIDS Program. The OIG recommends that HUD not use HUD funds to reimburse the Indiana State Department of Health for these claims. The Department of Health accepts this finding and agrees that this amount should be deducted by HUD from the \$554,163 currently held by HUD and for which the Department of Health is awaiting permission to draw down.

The Indiana State Department of Health agrees to work with HUD to identify and provide additional supporting documentation for claims cited in the report. The Department of Health respectfully requests that no final findings regarding the eligibility of these claims be made at this time, and that the Department of Health be afforded a reasonable time not less than 120 days to reconcile Recommendation 1C.

The OIG finds that the Indiana State Department of Health lacked sufficient procedures and controls to ensure that its subcontractor AIDServe claimed program funds in accordance with applicable federal and state guidelines. The OIG recommends that the Department of Health implement such guidelines and controls to ensure future compliance regarding the use of HUD funds. The Department of Health disagrees with this finding. The Department of Health took appropriate steps to comply with all state and federal guidelines, and to protect the integrity of the grant program and to ensure the continuation of services.

HUD's Comments

We agree with the finding and recommendations. At this time our intention is to recover disallowed costs through an offset of amounts due to the Indiana State Department of Health from the Housing Opportunities for People With AIDS program. The Department of Health spent \$554,163

in State funds on grant activities, but only \$382,447 of that amount was for costs that were eligible and supported with proper documentation according to the audit. We intend to allow the Department of Health to draw down only the \$382,447.

OIG Evaluation of
Auditee Comments

The Indiana State Department of Health did not take sufficient actions to comply with all applicable Federal guidelines to protect the integrity of the program. The Department of Health lacked adequate procedures and controls to ensure HUD funds were used appropriately. The Department of Health was required to adequately document all costs charged to the program, but it did not require AIDServe to provide complete supporting documentation. The Department of Health's former Accounting Manager informed us that he knew about the discrepancies between the approved claim vouchers and amounts entered by AIDServe into HUD's Integrated Disbursement and Information System. Despite this, he approved claims to reimburse the State for non-HUD funds it used for program operations.

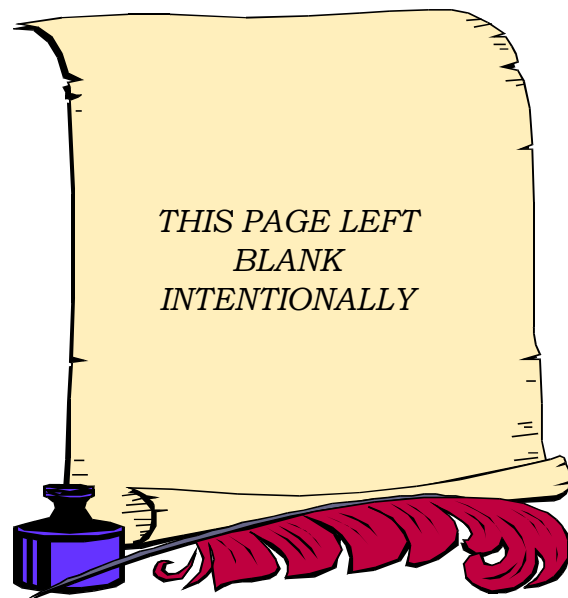
24 CFR Part 574.500 required grantees to ensure that their respective project sponsors carried out activities in compliance with all applicable requirements. Office of Management and Budget Circular A-87 required that all costs be necessary and reasonable for proper and efficient performance and administration of Federal awards. Circular A-87 also required all costs to be adequately documented. Based on the results of the audit, HUD had no assurance that these criteria were met.

Recommendations

We recommend that the Director of Community Planning and Development, Indianapolis Field Office, ensures that the Indiana State Department of Health:

- 1A. Reimburses HUD \$53,695 from non-Federal funds for the inappropriate drawdown by AIDServe of ineligible funds cited in this finding.

- 1B. Does not use \$33,322 in HUD funds to reimburse itself for non-HUD funds expended for ineligible costs cited in this finding.
- 1C. Provides documentation to support that funds drawn from HUD of \$44,938 benefited its program. If the Department of Health cannot provide the necessary documentation, then it should reimburse HUD from non-Federal funds for the unsupported portion of the above amount.
- 1D. Provides documentation to support that \$39,761 in non-HUD funds it paid to AIDServe for expenses benefited its grant program. If the Department of Health cannot provide the necessary documentation, the State should not use \$39,671 in HUD funds to reimburse non-HUD funds cited in this finding.
- 1E. Implements procedures and controls to ensure that HUD funds are used according to Housing Opportunities for Persons With AIDS Formula Grant Agreements, HUD's regulations, and Office of Management and Budget Circular A-87.



Management Controls

Management controls include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

Relevant Management Controls

We determined that the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above during our audit of the Indiana State Department of Health's Program.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations

The Indiana State Department of Health inappropriately drew down and paid AIDServe, the managing entity of its grant program, non-HUD funds for which the State is expecting reimbursement from HUD. These funds did not benefit its program. The Department of Health lacked sufficient documentation to support that HUD funds and non-HUD funds for which the State is expecting reimbursement from HUD benefited its program (see Finding).

- Compliance with Laws and Regulations

The Department of Health and/or AIDServe did not follow: Housing Opportunities for Persons With AIDS Formula Grant Agreements, HUD's regulations, Office of Management and Budget Circular A-87, and the State's Grant Agreements (see Finding).

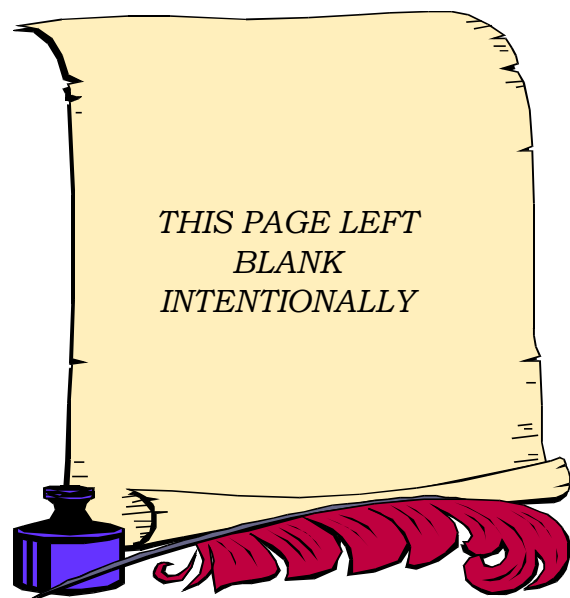
- Safeguarding Resources

The Indiana State Department of Health's Human Immunodeficiency Virus/Sexually Transmitted Disease Division did not maintain adequate oversight and controls over HUD funds for its program. Specifically, the Department of Health drew down \$53,695 in HUD funds and paid AIDServe \$33,322 in non-HUD funds for which the State is expecting reimbursement from HUD. These funds did not benefit its program. The Department of Health lacked sufficient documentation to support that another \$44,938 in HUD funds and \$39,761 in non-HUD funds for which the State is expecting reimbursement from HUD benefited the grant program. (see Finding).

Follow Up On Prior Audits

This is the first audit of the Indiana State Department of Health's Housing Opportunities for Persons with AIDS Program by HUD's Office of Inspector General. The latest single audit report for the State of Indiana covered the period ending June 30, 2002. The report contained 32 findings. None of the findings related to the State's Program. The latest independent auditor's report for AIDServe, Incorporated covered the period ending December 31, 1998. The report contained five findings. One of the findings involved HUD funds from the State's Program. The finding is reported in this report.

Independent Auditor's Report	This Report
Expenses Were Inadvertently Claimed For Reimbursement Twice	Controls Over HUD Funds Were Not Adequate

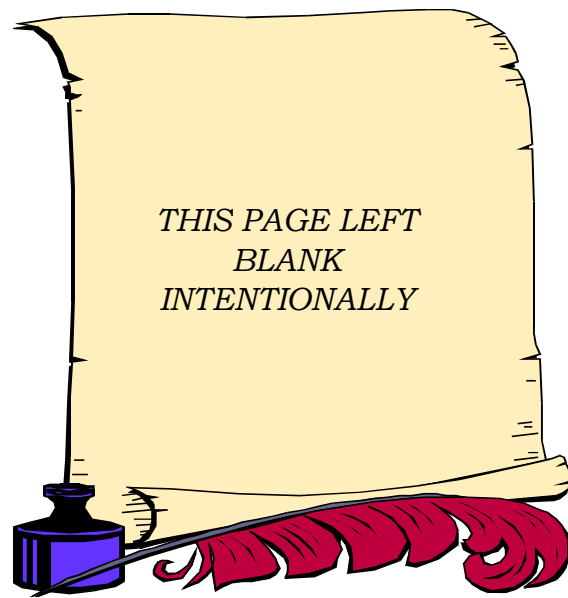


Schedule of Questioned Costs

<u>Recommendation Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A	\$53,695	
1B	33,322	
1C		\$44,938
1D		<u>39,761</u>
Total	<u>\$87,017</u>	<u>\$84,699</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.



Auditee Comments

Frank L. O'Bannon
Governor

Gregory A. Wilson, M.D.
State Health Commissioner



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Department of Health
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June 19, 2003

Mr. Ronald Huritz
Assistant Regional Inspector General for Audit
United States Department of Housing and Urban Development
Office of the Inspector General
77 West Jackson Boulevard, Suite 2646
Chicago, Illinois 60604

*Re: Draft Audit Report, Indiana State Department of Health Housing
Opportunities for Persons with AIDS Program*

Dear Mr. Huritz:

We are in receipt of the draft report in the above-referenced matter. Thank you for the opportunity to respond.

Background and Grant Oversight

The State of Indiana has participated in the Housing Opportunities for Persons with AIDS (HOPWA) Program since 1995, and over the course of that period has been awarded more than two million dollars in federal funds. The Indiana State Department of Health (ISDH) has historically been the grantee for those funds and has distributed those funds through its Division of HIV/STD. On March 1, 2001, the Governor of the State of Indiana authorized and approved the transfer of this housing assistance program to the Indiana Housing Finance Authority, and the ISDH Division of HIV/STD continues to consult with that state housing agency on issues related to assistance for persons living with HIV/STD.

At all times relevant to this audit and ISDH's partnership with HUD, the ISDH Division of HIV/STD was sub-contracting with AIDServe Indiana, Inc. (ASI), or ASI's predecessor entities, to assist with the administration of the state's HOPWA Program. On November 16, 2000, in conjunction with the Indiana Department of Administration and after multiple discussions with HUD program staff and ASI, the ISDH terminated all contracts or grants between the ISDH and ASI. The termination letter cited ASI's incorrect use of funds between specific grants and contracts, ASI's inappropriate billing procedures, and ASI's failure to expend funds in accordance with the grants and contracts. That correspondence also cited ASI's breach of the confidentiality provisions

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of the grant agreements based on ASI's open discussion of a client's medical condition without that client's authorization. The letter referenced the good faith attempts by the ISDII to work with ASI over the previous several months to help ASI overcome its administrative deficiencies, and ASI's failure to improve in response to those efforts.

Among the administrative deficiencies experienced by ASI were issues with that entities' technical ability to properly code claims for reimbursement with HUD using a new software and billing system then required by HUD. As a result, HUD determined that it would not allow the state to draw down \$554,163 in claims for reimbursement, and the state thereafter used non-HUD funds for that purpose to reimburse providers for services provided under the HOPWA Program. Notwithstanding the administrative deficiencies leading to the state's termination of ASI's grants, the ISDH worked diligently with and through care coordination sites throughout the state to ensure that clients continued to be served in accordance with the mission of the HOPWA Program.

The draft report notes that the Office of the Inspector General (OIG) conducted an audit of the HOPWA Program in Indiana for the period from January 1, 1999, through December 21, 2000. The draft report further notes that the audit was conducted based on a citizen's complaint that HOPWA Program funds were "misused and wasted." To be complete, prior to the audit being called and well after the citizen complaint, the ISDH also requested that the OIG conduct an audit of the state's HOPWA Program. At that point in time, the ISDH was seeking to draw down HUD funds for all of the pending claims, and was being held to provide supporting documentation and information in detail not previously requested or required by HUD. The ISDH made the request for an OIG audit in a letter to HUD's Indianapolis Field Office Director of Community Planning and Development, dated November 2, 2001, to answer the allegations raised in the citizen complaint and to sufficiently inform HUD program staff toward the goal of HUD releasing the \$554,163 owed to the state to reimburse it for HUD program expenses.

According to the draft report, the goal of the audit was to determine whether the OIG could substantiate the allegations of the citizen complainant that program funds were "misused or wasted," and whether HUD's regulations for the program were followed. The OIG reviewed One Hundred Percent (100%) of the claims submitted for the audit period. The OIG did not substantiate any allegations of fraud, waste, or misuse of funds used or sought to support the state's HOPWA Program. The OIG did make findings related to ASI's poor record keeping, cost-allocation, and other administrative deficiencies that resulted in determinations that some claims amounting to \$87,017 were ineligible and that others amounting to \$84,699 required additional supporting documentation. As HUD's grantee, the ISDH assumes responsibility for ASI's administration of the state's HOPWA Program and will work with HUD to reconcile these findings.

Further, the draft report acknowledges the state's use of \$554,163 in non-HUD funds to pay claims made under the HOPWA Program, and that HUD is awaiting the results of the audit to determine the amount of the \$554,163 it should provide to the

ISDH. The draft report infers, and in the exit conference the OIG confirmed the inference, that those funds not determined by the OIG to be ineligible or ultimately unsupported are appropriately payable to the ISDH. The ISDH respectfully requests that the OIG make a specific finding in its final audit report that any amounts finally determined by the OIG to be eligible expenses under the HOPWA program be provided to the ISDH from the \$554,163 currently held by HUD and for which the ISDH is awaiting permission to draw down.

OIG Recommendations and ISDH Response

OIG Recommendation 1A. The OIG finds that \$53,695 in claims drawn down by ASI for program expenses were ineligible under the HOPWA Program. The OIG recommends that this amount be reimbursed by the state to HUD in non-Federal funds. The ISDH accepts this finding and agrees that this amount should be deducted by HUD from the \$554,163 currently held by HUD and for which the ISDH is awaiting permission to draw down.

OIG Recommendation 1B. The OIG finds that the ISDH is currently seeking reimbursement for \$33,322 in claims for which the ISDH used non-HUD funds and which are ineligible under the HOPWA Program. The OIG recommends that HUD not use HUD funds to reimburse the ISDH for these claims. The ISDH accepts this finding and agrees that this amount should be deducted by HUD from the \$554,163 currently held by HUD and for which the ISDH is awaiting permission to draw down.

OIG Recommendation 1C. The OIG finds that \$44,938 in claims drawn down by ASI for program expenses lack sufficient supporting documentation. The OIG recommends that the ISDH provide missing documentation to support those claims. The OIG further recommends that should the ISDH be unable to provide further documentation in support of these claims, that this amount be reimbursed by the state to HUD in non-Federal funds. The ISDH agrees to work with HUD to identify and provide additional supporting documentation for these claims. The ISDH is currently reviewing the voluminous records provided by ASI to the ISDH after its grants were terminated, and in good faith believes that additional documentation or information may be recovered to support the eligibility of these claims. The ISDH respectfully requests that no final findings regarding the eligibility of these claims be made at this time, and that the ISDH be afforded a reasonable time not less than 120 days to reconcile this recommendation.

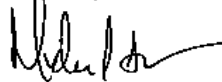
OIG Recommendation 1D. The OIG finds that the ISDH is currently seeking reimbursement for \$39,671 in claims for which the ISDH used non-HUD funds and for which there is not sufficient supporting documentation. The OIG recommends that the ISDH provide missing documentation to support those claims. The OIG further recommends that should the ISDH be unable to provide further documentation in support of these claims, that this amount should not be reimbursed by HUD funds. The ISDH agrees to work with HUD to identify and provide additional supporting documentation for these claims. The ISDH is currently reviewing the voluminous records provided by ASI to the ISDH after its grants were terminated, and in good faith believes that

additional documentation or information may be recovered to support the eligibility of these claims. The ISDH respectfully requests that no final findings regarding the eligibility of these claims be made at this time, and that the ISDH be afforded a reasonable time not less than 120 days to reconcile this recommendation.

OIG Recommendation 1E. The OIG finds that the ISDH lacked sufficient procedures and controls to ensure that its subcontractor ASI claimed program funds in accordance with applicable federal and state guidelines. The OIG recommends that the ISDH implement such guidelines and controls to ensure future compliance regarding the use of HUD funds. The ISDH disagrees with this finding. The ISDH took appropriate steps to comply with all state and federal guidelines, and to protect the integrity of the HOPWA Program and to ensure the continuation of services. Specifically, the ISDH worked with HUD program staff regarding all issues related to ASI's administration of the HOPWA Program and the propriety of draw downs as those issues were occurring. Upon determining that ASI was experiencing administrative deficiencies that ASI could not resolve, the ISDH terminated ASI's grants and that entities' participation in the HOPWA Program. With regard to the recommendation, the ISDH notes that prior to and unrelated to this audit, the Governor of Indiana transferred the HUD HOPWA housing assistance program to the Indiana Housing Finance Authority.

If you have any questions or comments regarding this response, or if the ISDH can provide further assistance with the completion of the audit, please do not hesitate to contact me. Thank you for your consideration of these comments and our request for modification or amendment of your findings.

Sincerely,



Michael A. Hurst
Deputy Health Commissioner
Special Counsel

HUD's Comments



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JUN 19 2003

MEMORANDUM FOR: Heath Wolfe, Regional Inspector General
for Audit, Region V

FROM: Robert F. Poffenberger, Director of Community Planning and
Development, Indianapolis Field Office

SUBJECT: Draft Audit Report
Indiana State Department of Health
Housing Opportunities for Persons With AIDS Program
Indianapolis, Indiana

R. Poffenberger
6/19/03

We have reviewed the draft audit report for the Indiana State Department of Health for the Housing Opportunities for Persons With AIDS (HOPWA) program. We have the following comments:

- 1) We agree with the finding and recommendations. We will comply with the necessary actions and timeframes in Handbook 2000.06 Rev-3 for resolution of the audit, including the following:
 - a) Contact the Indiana State Department of Health to obtain their response to the finding and recommendations, in particular any documentation of unsupported costs.
 - b) Make a management decision and determine a final amount of disallowed costs, both ineligible and unsupported costs.
 - c) At this time our intention is to recover disallowed costs through an offset of amounts due to the Indiana State Department of Health from the HOPWA program. The Indiana State Department of Health spent \$554,163 in State funds on HOPWA activities, but only \$382,447 of that amount was for costs that were eligible and supported with proper documentation, according to the audit (\$554,163 in total State funds spent minus ineligible amount of \$87,017 and unsupported amount of \$39,761). We intend to allow the Indiana State Department of Health to draw down only the \$382,447.
- 2) We wish to offer the following clarification on the statements made in the audit.

Page 4, under Disbursements/Claims Reviewed and Schedules Provided.

The draft audit states, "The State approved the \$879,122 in claims and drew down \$324,959 in HUD funds. However, AIDServe experienced technical problems entering the remaining \$554,163 of the claims into HUD's System. **Therefore, HUD did not allow the State to draw down funds for these claims.**"

The last sentence is not an accurate statement. Our office suspended drawdowns in the LOCCS system for the State HOPWA program between approximately February 5, 1999 and July 14, 1999 pending receipt of an overdue Annual Progress Report. This time period was prior to the State of Indiana's conversion to the IDIS system in late October 1999. After the suspension was lifted the State drew down funds in July 1999 and then no subsequent funds were drawn down until May 17-18, 2000, after conversion to IDIS. We do not know why the State did not draw down funds from August to October 1999, prior to the IDIS conversion, and why the only drawdowns that occurred after IDIS conversion were on May 17-18, 2000. There was no HUD suspension of LOCCS drawdowns during that time period.

If there are any questions, please contact Dolores Koziol, Program Manager, at 317-226-6303 ext. 5277.